MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa rating to the City Seattle, WA's G.O. bonds and Aa1 rating to limited tax G.O. bonds; Outlook is stable

Global Credit Research - 15 Apr 2013

$140.0 million in G.O. debt affected; $799.3 million limited tax G.O. debt affected

SEATTLE (CITY OF) WA
Cities (including Towns, Villages and Townships)
WA

Moody's Rating

ISSUE		RATING
Unlimited Tax General Obligation Improvement Bonds, 2013		Aaa
Sale Amount	$50,000,000	
Expected Sale Date	04/23/13	
Rating Description	General Obligation	
Limited Tax General Obligation Improvement Bonds, Series 2013A		Aa1
Sale Amount	$42,225,000	
Expected Sale Date	04/23/13	
Rating Description	General Obligation Limited Tax	
Limited Tax General Obligation Improvement and Refunding Bonds, Series 2013B (Taxable)		Aa1
Sale Amount	$55,140,000	
Expected Sale Date	04/23/13	
Rating Description	General Obligation Limited Tax	

Moody's Outlook STA

Opinion

NEW YORK, April 15, 2013 --Moody's Investors Service has assigned a Aaa rating with a stable outlook to Seattle, Washington's Unlimited Tax General Obligation Improvement Bonds, 2013. The UTGO offering is secured by the full faith and credit and unlimited property tax pledge of the city. Bond proceeds will finance the first installment of the city's $290 million authorization for phase I of the project to rebuild the city's major seawall.

Moody's has also assigned a Aa1 rating with a stable outlook to the city's Limited Tax General Obligation Improvement Bonds, 2013A and Limited Tax General Obligation Improvement and Refunding Bonds, 2013B (Taxable). The GOLT offerings are secured by the full faith and credit of the city within the constitutional and statutory limitations of non-voter approved debt. Series 2013A proceeds will fund various capital improvements citywide and series 2013B proceeds will fund various capital improvements citywide and refund outstanding maturities of the city's 2004 bonds.

SUMMARY RATING RATIONALE

The ratings reflect the city's fundamentally sound economic base showing continued signs of recovery, above-average socio-economic indices as the commercial and tourist hub of the Pacific Northwest, sound financial management building on a narrowed yet satisfactory financial position as revenue growth accelerates, and a favorable debt position.

The stable rating outlook is based on Moody's expectation that the city will continue to manage its financial operations well despite narrowed financial reserves and the challenges posed by the slow recovery from the recession.

STRENGTHS

- Strong economic base as regional, technology, service, and financial center for the Pacific Northwest

- High wealth levels for a large metropolitan area; amongst the highest in its peer group

- Sound financial management with proven budgetary flexibility as reflected in positive year-end results following mid-year budget adjustments

- Below average debt burden

- No VRDO or derivatives exposure

CHALLENGES

-Reserves remain somewhat narrow for a large Aaa-rated city. Moody's expects the city to continue conservative budgeting practices and adhere to policies established to replenish reserve funds

- Reliance on economically-sensitive revenues for operations, which are slowly rebounding

DETAILED CREDIT DISCUSSION

FUNDAMENTALLY STRONG LOCAL ECONOMY HAS STABALIZED FOLLOWING RECESSION; MODEST GROWTH IS OCCURING

The City of Seattle is the heart of the Puget Sound region, and the commercial hub of the Pacific Northwest. The computer services and aircraft sectors are key components of the diverse regional economy which includes King County (UTGO bonds rated Aaa). Seattle's economy has passed the worst of the recession as professional and service employment levels continue to expand to nearly pre-recession levels. Employment growth has been steady over the last two years, and the city's seasonally unadjusted unemployment rate of 5.9% (January 2013) is below that of the state levels (8.5%) and significantly improved from a 7.1% rate in January 2011.

Although homebuilding and manufacturing jobs are not expected to rebound at the same pace as professional and service jobs, the whole economy stands to gain from improved commercial orders and production, especially due to the back-log of orders at Boeing. A recent four-year agreement with machinists securing jobs in nearby Renton enhances economic stability in the region. Global trade has begun flowing again due to sustained Asian demand, mostly transportation equipment and agricultural goods. The city's lower exposure to euro zone export markets compared with the U.S. will be a key strength in the near-term. 2013 saw a return to assessed valuation growth following three years of declines. The city's full valuation remains sizable at $117.7 billion, following a modest 0.8% increase in 2013. Full value per capita, at $189,579, remains very high for a major metropolitan city. Wealth levels are also fairly high for a large city, with 2006 - 2010 estimated median family income of $87,987, or 139.7% of the U.S.

FINANCIAL OPERATIONS EXPECTED TO CONTINUE IMPROVEMENT; MODERATE REVENUE GROWTH FORECAST AS CITY REBUILDS RESERVES

Recent moderate revenue growth appears to be sufficient for the city to achieve structural balance following a series of operating deficits through the bulk of the recession. The city enjoys a fairly diverse stream of general fund revenues, which help to mitigate the volatility in the economically-sensitive revenues, particularly holiday sales tax receipts. In fiscal 2011, combined B&O and utility taxes revenues comprised 36.8% of general fund revenues, property taxes 24.8%, and sales taxes 14.5%. The city's operating tax rate is approximately $3.15 per $1,000 of assessed valuation, well below the city's $3.60 statutory maximum.

Moody's believes city management has been responsive to budget challenges and believes that the city will continue to take the necessary steps to maintain fiscal balance, preserving its long-term credit strength. In recent years city officials have demonstrated ability to budget accurately and cut costs when needed, nonetheless relying on reserve draws as revenue stabilization measures. Going in to the recession, the city had accumulated a general fund balance of 33.8% of revenues ($328.0 million) in fiscal 2007. Due to lower than expected sales tax revenues from fiscal 2008 to fiscal 2010, general fund reserves and expenditure cuts were used to balance the city's budget. Fiscal 2010 saw general fund balance decline to 17.0% ($167.0 million). Anticipating the ongoing stress of greater than expected fiscal 2011 financial balance, management addressed potential deficits for fiscal 2011 through a variety of actions including mid-year program cuts totaling $10.0 million. These actions reflect the sound financial management and budgetary flexibility of the city. Through additional layoffs and revenue increases in commercial parking tax and other various fees, the total general fund balance increased to a larger than expected 20.0% ($204.8 million) at the end of fiscal 2011. In approving the 2012 budget, the mayor and council focused on significant programmatic changes that address the long-term financial health of the city, resulting in the fourth consecutive year of budget reductions. Despite not being able to provide granular consolidated year-end revenue and expense estimates, city officials nonetheless project fiscal 2012 will result in a second year of operating surplus, bringing Seattle reserves to levels that while still somewhat low, are closer in line with rated peers.

The fiscal 2013-2014 biennial budget is balanced against a 3.3% revenue increase as improved sales tax and B&O revenues, ongoing cost savings, and continued voter support for operations allow Seattle to restore reserves, reinvest in public safety and provide salary increases following four years of COLA freezes. Notably, Seattle's strong track record of voter support for special operational "levy lifts" provides the city a relatively high degree of financial flexibility for its general operating revenues. In 2013, levy lifts provided an additional $1.25 per $1,000 in taxing authority bringing in approximately $147 million, including the sunset of a successfully completed fire facilities levy lift and a newly-approved seven year library levy lift.

After reaching a peak of $30.2 million in 2008, the city's Revenue Stabilization Account ("Rainy Day Fund") (within the General Fund) was drawn down during the recession to balance the budget, declining to $10.5 million in fiscal 2010. Since that time, the city council has approved and adopted a plan to replenish the fund with transfers to the fund by ordinance and an automatic transfer of tax revenues that exceed the last official revenue forecast. The policy would cap this value at 5% of tax revenues, or approximately $45 million, about equal to the city's emergency reserve. In fiscal 2012, the city added $10 million to the rainy day fund, exceeding a budgeted $2.0 million contribution. A $4-5 million contribution is budgeted for fiscal 2013. The city also adopted a policy in 2011 to fully fund the annually required funding (ARC) level starting in 2012. While this does require an increase in employer contribution rates, the changes result in an increase of approximately $30 million annually to support the retirement system. Moody's notes that these changes also reflect the city's commitment to rebuild and maintain reserves and meet future pension obligations, a credit positive.

MANAGEBLE DEBT POSITION

The City of Seattle continues to maintain a low overall debt burden of 1.3%, well below levels typical of larger cities. Despite additional borrowing plans, debt levels are expected to remain low going forward; a direct debt burden of 0.8% is also below levels typical of other large cities. Beyond the current offerings, city officials do not expect to issue additional tax supported debt this year and the remainder of its sizeable capital program will be funded on a pay-as-you-go basis. Payout of the city's general obligation bonds (both unlimited and limited tax) remains sound with 65.3% amortization of principal in ten years. All of the city's debt consists of fixed rate securities.

WHAT COULD MAKE THE RATING MOVE UP

- n/a

WHAT COULD MAKE THE RATING MOVE DOWN

- Significant unforeseen deterioration in financial position due to greater than expected declines in operating revenues

- Subsequent downturn in the local economy

- Substantial deterioration in the city's socioeconomic measures

Outlook

The stable rating outlook is based on Moody's expectation that the city will continue to manage its financial operations well despite narrowed financial reserves and the challenges posed by the slow recovery from the recession.

KEY STATISTICS

2012 population estimate: 616,500

2006 - 2010 estimated median family income: $87,987 (139.7% of state)

2013 full valuation: $117.7 billion

2013 full value per capita: $189,597

Fiscal 2011 general fund balance: 20.0% of general fund revenues ($204.8 million)

Fiscal 2011 available general fund balance: 14.2% of general fund revenues ($145.3 million)

Direct debt burden: 0.8%

Overall debt burden: 1.3%

Payout of principal (10 years): 65.3%

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Analysts

Bryan A. Quevedo
Lead Analyst
Public Finance Group
Moody's Investors Service

William Oh
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA